Saskatchewan Transportation Company

Third Quarter Report 2014

For the quarter ending September 30, 2014

2014 3rd Quarter Corporate Reporting

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Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the third quarter of 2014. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past nine months.

This MD&A compares the operational outcomes of the third quarter of 2014 to the corresponding quarter in the previous year (third quarter of 2013) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

Passenger Services:

In the first three quarters of 2014, STC coaches traveled approximately 2,228,000 miles, serving 253 Saskatchewan communities. In May 2013, the Highway Traffic Board approved STC's request to discontinue three under-utilized routes. One route was approved for discontinuance in May 2013 with the other two routes approved for discontinuance on January 1, 2014. The discontinuance of the two routes at the beginning of the year has reduced the number of communities served from 284 to 253 since the third quarter in 2013.

Revenues from passenger operations in this quarter were $1,868,000 up from $1,841,000 in revenues reported in the third quarter of 2013. Year to date passenger revenues were $5,594,000, compared to $5,596,000 for the same period in 2013.

Expenses associated with operating passenger services were $3,898,000 up from the 2013 figure of $3,808,000. Year to date passenger operating expenses were $12,144,000, up from the 2013 total for the same period of $11,940,000 largely due to increased fuel prices in the first half of 2014.

Operating losses for passenger services in the quarter were $2,030,000, compared to a loss of $1,967,000 in the third quarter of 2013. Year to date losses were $6,550,000, compared to a loss of $6,344,000 for the same period in 2013.

Total ridership for the first three quarters of 2014 was 195,877, compared to 205,836 in the same period of 2013, a decrease of approximately 4.8%.

STC last implemented a 5.5% passenger fare increase effective August 1, 2014.

Express Services:

Through its network of 174 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America. Due to the discontinuance of the two under-utilized routes on January 1, 2014, the number of agencies was reduced from 193 to 174 since the third quarter of 2013.

In the third quarter of 2014, revenues from express operations were $1,977,000, up from the revenues of $1,900,000 reported in the third quarter of 2013. Year to date express revenues were $5,582,000 as compared to $5,451,000 for the same period in 2013.

Expenses associated with operating express services in the third quarter of 2014 were $1,494,000, up from the 2013 third quarter figure of $1,427,000. Year to date express operating expenses were $4,508,000, as compared to $4,319,000 for the same period in 2013.

Profits realized for express operations in the third quarter were $483,000, compared to a profit of $473,000 in the third quarter of 2013. Year to date profits were $1,074,000 compared to $1,132,000 for the same period of 2013.

STC last implemented an express rate increase effective February 1, 2014.

Maintenance Services:

STC operates two Maintenance Facilities, one in Saskatoon for major bus maintenance, and one in Regina for more routine servicing.

In the third quarter of 2014, expenses associated with maintaining the Company's fleet (included in passenger and express services above) were $897,000 a slight increase compared to $861,000 in the third quarter of 2013. Year to date maintenance expenses for the Company's fleet were $2,903,000 as compared to $2,825,000 for the same period of 2013.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the third quarter of 2014 were $118,000 compared to $112,000 in the third quarter of 2013. Year to date revenues were $364,000 compared to $281,000 for that same period in 2013. The increase in revenue is due to an increase in fuel prices being charged to maintenance customers.

Expenses associated with such work were $65,000 in the third quarter of 2014 compared to $70,000 in the third quarter of 2013. Year to date expenses for third party maintenance work were $213,000 compared to $175,000 for the same period of 2013.

Financial Summary:

Overall, STC's revenues for the third quarter of 2014 amounted to $4,123,000, compared to $3,995,000 in the third quarter of 2013. Year to date revenues were $12,021,000 as compared to $11,817,000 for the same period of 2013.

Expenses for the third quarter were $7,215,000, compared to $7,164,000 for 2013. Year to date expenses were $22,365,000 as compared to $21,820,000 for the same period of 2013.

The Company's loss before grants for the quarter was $3,092,000, compared to $3,169,000 in the third quarter of 2013. Year to date losses before recognition of grant funding were $10,344,000 as compared to $10,003,000 for the same period of 2013.

STC has been approved for an operating grant of $10.3 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the third quarter, indicate that the Company will require the full amount of grant funding.

In this year's first three quarters, STC drew down $8.5 million of the operating grant funds available from CIC. STC had no outstanding loans or indebtedness at the end of the quarter.

At the end of this quarter, the Province of Saskatchewan's equity in STC was $7,355,000 compared to $7,326,000 in the third quarter of 2013.

Saskatchewan Transportation Company
Statement of Financial Position
(unaudited)

	(Thousands of Dollars)	
	As at September 30, 2014	**As at December 31, 2013**
Assets		
Current		
Cash	$ 1,709	$ 1,642
Accounts receivable	1,069	1,281
Inventories	329	330
Prepaid expenses	545	518
Assets held for sale	-	3
	3,652	3,774
Non-current		
Property and equipment	34,327	35,779
	$ 37,979	**$ 39,553**
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	$ 2,520	$ 2,950
Non-current		
Deferred capital grant	28,104	29,592
	30,624	32,542
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	6,890	6,546
	7,355	7,011
	$ 37,979	**$ 39,553**

See accompanying notes

Saskatchewan Transportation Company
Statement of Comprehensive (Loss) Income
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	(Thousands of Dollars)			
	2014	2013	2014	2013
Revenue				
Express services	$ 1,977	$ 1,900	$ 5,582	$ 5,451
Passenger services	1,868	1,841	5,594	5,596
Other	274	254	832	692
Gain on disposal of property and equipment	4	-	13	78
	4,123	3,995	12,021	11,817
Expenses				
Operating costs other than those listed below	2,533	2,560	8,067	7,848
Salaries, wages and short-term employee benefits	3,888	3,814	11,923	11,682
Depreciation	794	790	2,375	2,290
	7,215	7,164	22,365	21,820
Loss before the following	(3,092)	(3,169)	(10,344)	(10,003)
Operating grant	2,000	3,000	8,500	8,200
Capital grant	738	715	2,188	2,067
Total comprehensive (loss) income	**$ (354)**	**$ 546**	**$ 344**	**$ 264**

See accompanying notes

Saskatchewan Transportation Company
Statement of Changes in Equity
(unaudited)

(Thousands of Dollars)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	**Contributed Surplus**	**Total Equity**
Balance at December 31, 2012	$ 6,597	$ 465	$ 7,062
Total comprehensive income	264	-	264
Balance at September 30, 2013	6,861	465	7,326
Balance at October 1, 2013	$ 6,861	$ 465	$ 7,326
Total comprehensive loss	(315)	-	(315)
Balance at December 31, 2013	6,546	465	7,011
Balance at December 31, 2013	**6,546**	**465**	**7,011**
Total comprehensive income	**344**	-	**344**
Balance at September 30, 2014	**$ 6,890**	**$ 465**	**$ 7,355**

See accompanying notes

Saskatchewan Transportation Company
Statement of Cash Flows
(unaudited)

	Nine months ended September 30 (Thousands of Dollars)	
	2014	**2013**
Operating Activities		
Total comprehensive income	$ 344	$ 264
Items not involving cash:		
Depreciation	2,375	2,290
Gain on disposal of property and equipment	(13)	(78)
Recognition of capital grant	(2,188)	(2,067)
Net change in non-cash working capital	(244)	(179)
Cash provided by operating activities	274	230
Investing Activities		
Additions to property and equipment	(933)	(2,256)
Proceeds on disposal of property and equipment	26	80
Cash used in investing activities	(907)	(2,176)
Financing Activities		
Capital grant received	700	2,200
Operating demand loan	-	500
Repayment of operating demand loan	-	(500)
Cash provided by financing activities	700	2,200
Increase in cash	67	254
Cash, beginning of year	1,642	1,043
Cash, end of period	**$ 1,709**	**$ 1,297**

See accompanying notes

Saskatchewan Transportation Company
Notes to Condensed Financial Statements
For the period-ended September 30, 2014

1. Status of Saskatchewan Transportation Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK, S4P 2E2.

The financial results of STC are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The results included in these condensed interim financial statements should not be taken as indicative of the performance to be expected for a full year due to the seasonal nature of corporate operations.

2. Basis of preparation

a. Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These interim results do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the year-ended December 31, 2013.

The condensed interim financial statements were authorized for issue by STC's Board of Directors on November 24, 2014.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment annually using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on historical usage.

3. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those applied in STC's audited annual financial statements for the year-ended December 31, 2013.